

~~SECRET~~

Nº 103

Economic Intelligence Report

TRENDS IN THE SOVIET ECONOMY
1950-63



CIA/RR ER 63-2

February 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

APPROVED FOR RELEASE

3/00

~~SECRET~~

GROUP 1
Excluded from automatic
downgrading and
declassification

NND 951154-550

Handwritten: CTS-11 Review (1/15/63)

~~SECRET~~

Economic Intelligence Report

TRENDS IN THE SOVIET ECONOMY
1950-63

CIA/RR ER 63-2

WARNING

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

~~SECRET~~

NND 951154-551

~~S-E-C-R-E-T~~

FOREWORD

This report provides the detailed analysis and the basic statistics used in the preparation of CIA/RR EM 62-23, Recent Trends in Soviet Economic Policy, December 1962, SECRET. For the most part, data are derived from Soviet official announcements, technical journals, and statistical handbooks. A complete list of source references is available in the files of this Office.

- iii -

~~S-E-C-R-E-T~~

NND 951154-552

~~S-E-C-R-E-T~~

CONTENTS

	<u>Page</u>
Summary and Conclusions	1
I. General Trends, 1950-61	5
II. Economic Policy and the Leadership	13
A. Summary of the Period Before 1959	13
B. Current Issues and Policy Discussions, 1959-62	14
III. Economic Problems	19
A. Problems in Investment	19
B. Problems in Industry	25
C. Organizational Problems of Industry and Investment	27
D. Agriculture	31
E. Consumption	35
F. Official Attitudes Toward Private Activity	37
IV. Military Expenditures and Policy	41
A. Trends in Expenditures	41
B. Implication of New Military Doctrine	43
C. Future Trends	44
V. Foreign Trade and Aid	47
A. Trade -- General	47
B. Trade -- European Satellites	47
C. Trade -- Industrial West	48
D. Trade and Aid -- Underdeveloped Countries	48
VI. Outlook	51
A. Problems and Responses	51
B. Prospects	54

Tables

1. USSR: Indicators of Economic Growth, 1951-61	9
2. USSR: Distribution of Gross National Product (Adjusted Factor Cost), by End Use, 1950 and 1955-62	10

- v -
~~S-E-C-R-E-T~~

NND 951154-553

~~S-E-C-R-E-T~~

	<u>Page</u>
3. USSR: Average Annual Rates of Growth in Industrial Production, by Branch of Industry, 1951-61	11
4. USSR: Trends in Growth of the Labor Force, 1950, 1953, and 1955-62	12
5. USSR: Average Annual Rates of Growth of New Fixed Productive Investment, by Sector, 1951-61 and 1962 Plan	20
6. USSR: Output of Construction Materials and Changes in Construction Activity, 1951-61 . .	22
7. USSR: Average Annual Rates of Growth in New Fixed Investment, by Function, 1951-61	24
8. USSR: Industrial Growth and Changes in Resource Use and Productivity, 1951-61	26
9. USSR: Average Annual Rates of Growth in Real Per Capita Consumption, 1951-61	36
10. USSR: Allocation of Mission-Related Military Expenditures, 1958 and 1962	42
11. USSR: Indexes of Resource Productivity in Industry, Selected Periods, 1950-61, and 1965 Plan	55
12. USSR: Indexes of Industrial Production, by Branch of Industry, 1950-61	56

Charts

	<u>Following Page</u>
Figure 1. USSR: Growth of Gross National Product, Industry, and Agriculture, 1950-61 . .	12
Figure 2. USSR: Growth of Consumption, Investment, and Defense, 1950 and 1955-62	12
Figure 3. USSR: Growth of Machinery Output, 1950-62	12

- vi -

~~S-E-C-R-E-T~~

NND 951154-554

~~S-E-C-R-E-T~~

TRENDS IN THE SOVIET ECONOMY*

1950-63

Summary and Conclusions

Although the economy of the USSR still is characterized by rapid growth of production, rates of growth have declined recently, in industry since 1955 and in agriculture since 1958. Meanwhile, competition for resources for use in the three main areas of economic activity -- defense and space, growth, and consumption -- has become intensified, particularly competition for specialized high-grade resources.

The acceleration of the arms and space races, especially in 1961 and 1962, has had an appreciable retarding effect on the growth of the civilian economy of the USSR. Continuation for the next 2 or 3 years of the recent accelerated rate of growth of expenditures for defense and space would perpetuate the present stagnation in agriculture and would cause considerable underfulfillment of production goals for industry. The Soviet leadership faces some difficult decisions regarding allocations to defense and within the defense sector itself. In particular, the leadership must decide how rapidly resources are to be directed to such expensive ventures as the antiballistic missile program or the program for landing a man on the moon. There are tentative indications in the 1963 budget and economic plan that allocations to the defense sector may increase less in 1963 than in 1962, thus reducing to some extent the pressures on rates of growth and on consumption.

Almost all indicators of Soviet economic growth show a moderate slowdown in 1960, 1961, and 1962. Growth in industrial production averaged about 7 percent per year in 1960 and 1961 compared with an average of about 9 percent per year from 1955 to 1959. Preliminary evidence for 1962 does not suggest a strong reacceleration in industry. Agricultural output in 1961 was 5 percent above that in 1960 but only 3 percent above that in 1958. In 1962, even with the campaign to plow up millions of acres of grasslands, there appears to be no increase above 1961 and possibly even a decrease. The increase in gross national product (GNP) averaged about 5 percent annually for the 3 years 1959-61, decidedly less than the average of 7 percent for the preceding

* The estimates and conclusions in this report represent the best judgment of this Office as of 15 January 1963.

~~S-E-C-R-E-T~~

NND 951154-555

~~S-E-C-R-E-T~~

8 years. These lower rates of growth are still quite respectable by the standards of modern industrial countries, although below what the Soviet leadership has come to expect and what is necessary to accomplish the ambitious objectives of the USSR.

A number of factors have contributed to this slowdown in growth. One has been the introduction of the 41-hour workweek, (down from 47 hours), with the result that the total man-hours supplied to industry in 1961 was practically the same as in 1958. A more important factor, however, appears to be the reversal of the trend in defense spending from a decline during 1955-57 to a rise starting in 1958 and accelerating in 1961 and 1962. Defense spending declined as a share of GNP from 12.7 percent in 1955 to 9.2 percent in 1960 and declined absolutely by perhaps as much as 2 billion (new) rubles* from 1955 to 1957. In the period 1955-58 a sharp reduction in the number of servicemen and a reduction in the procurement of arms made feasible (1) the large allocation of capital and labor required by the "new lands" and "corn" programs, (2) a rapid growth of investment in industry, and (3) a large increase in the housing construction program. These trends have been reversed since 1958. Total defense spending has been increasing since 1957, and demobilization of the armed forces was halted in 1961. In 1962 the estimated increase in spending for defense and space was about 10 percent, about double the rate of increase in GNP, and the increase in arms procurement was greater than the increase in the total production of machinery and equipment.

In 1961 and 1962 the interplay of the demands for large increases in all major sectors -- defense and space, growth, and consumption -- resulted in an overcommitment of resources beyond the normal degree of tautness in the Soviet economy. In 1962 the leadership reacted to the overcommitment by adopting policies of restraint which bear directly on the consumer. For example, meat prices were raised by 30 percent, private housing construction suffered another cut, and a scheduled reduction in the personal income tax was "postponed." Furthermore, the continued stagnation in agriculture in 1962 reflected the fundamental unwillingness of the leadership to give agriculture the machinery and skilled manpower necessary to raise the level of output and technology.

* Ruble values in this report are given in new rubles established by the Soviet currency reform of 1 January 1961. A nominal rate of exchange based on the gold content of the respective currencies is 0.90 ruble to US \$1. This rate, however, should not be interpreted as an estimate of the equivalent dollar value of similar US goods or services.

- 2 -

~~S-E-C-R-E-T~~

NND 951154-556